

Committee: Senate Committee on Economic Development and Veterans and Military Affairs

Chairman: Joseph Leibham, Republican, 9th District (Sheboygan)

10:00 a.m. Room 319 South, the Capitol. Ask for Colleen

Mr. Chairman and members of the Committee.

My name is Jenny Trick and I am the Deputy Director of the Racine County Economic Development Corporation (RCEDC). RCEDC is the single point of contact for economic development activities in Racine County and is responsible for working to recruit companies to Racine County, as well business retention and expansion activities.

I am here today to speak in favor on Senate Bill 291. Over the last three years, RCEDC has had the pleasure of working with 44 companies that have located to or expanded in Racine County. These projects account for a total of \$222.2M in total project costs and \$32.4 M in incentives. We are very familiar with the tax credit programs and look forward to continuing to use this, as well as other programs that the Legislature has made available to us.

While we have been fortunate in assisting a variety of companies to grow over the last three years, our economic situation remains more difficult than that of many others areas in the State.

1. During the last 5 years, the unemployment rate in Racine County has been higher than the U.S. and the State of Wisconsin.
2. Unemployment rates in our largest City, specifically Racine, have ranged from 7.6% to 17.6% during the 2008-2010 time periods.
3. Racine County's population growth, which is often tied to employment opportunities, increased by only 3.5% during the last decade compared to 6% for Wisconsin and 9.7% for the U.S.
4. From November 2010 to November 2011 the number of employed residents in Racine County has declined by 0.6% compared to an increase of 0.4% for Wisconsin and 1.2% for the U.S.

As a result of these conditions, we are asking that the Committee act in favor of Senate Bill 291. As you know, the Bill would enable companies statewide that have been allocated, but are not able to utilize tax credits, to sell or transfer these credits to companies in areas of high unemployment. This would include Racine County.

We are supportive of this legislation for the following reasons:

1. The manufacturing industry continues to represent 24% of the employment in Racine County (Region 16%; State 17%). As witnessed nationally, this industry is expected to be critical in leading the nation's economic recovery. Through the added incentives provided by this Bill we can

continue to grow this important segment of the economy thereby benefitting all of Southeast Wisconsin.

2. Through incentives provide by this Bill, and our location in the Chicago-Milwaukee Corridor, we can assist in the Region's and State's economic recovery by working to recruit companies from northern Illinois.
3. The Bill targets unused tax credits to those areas with the highest unemployment rates, thereby providing Racine County and other distressed communities with another tool to combat significant economic distress.
4. While the WEDC has, over the recent past, acted to expedite the awarding of incentives to companies, the Bill would reduce the time period to 10 days for WEDC approval of a proposed tax credit transfer.
5. Other than the unemployment criteria, the Bill provides for the identification of additional eligible areas by the WEDC when economic distress occurs, such as the relocation of a major employer or other negative economic development-related event.

6. The Bill provides for a modest and appropriate initial cap of \$10M over a 5-year time period in terms of the value of credits that can be sold or transferred.

7. The Bill provides for adequate oversight by the WEDC to ensure that the program is operated efficiently and effectively.

As we continue to struggle to recover from the recession, it is incumbent upon us to seek new and innovative ways to assist in that recovery. These efforts should, at times, be targeted where economic distress is most severe.

Over the recent past, the Legislature has made a variety of economic development tools available to us that have assisted in growing our economy.

We ask you to continue in this vein by supporting Senate Bill 291.



**Testimony of Daniel Cunningham (Forward Janesville, Inc.) before the Wisconsin Senate Committee on Economic Development and Veterans and Military Affairs
January 10, 2012**

- Good morning Mr. Chairman and committee members.
- Thank you for the opportunity to speak in support of Senate Bill 291.
- My name is Dan Cunningham, and I am the Vice President of Forward Janesville, a 500-member chamber of commerce and economic development organization representing businesses of all sizes in Janesville, Rock County and throughout south central Wisconsin.
- Our story in Rock County has been well told. The 2008 closing of Janesville's General Motors Plant hit our economy hard.
- Since January 2006, the Janesville area has experienced the loss of over 5,000 direct jobs due to plant closures, downsizings and long-term lay-offs.
- And while our unemployment rate has improved, the City of Janesville has an 8.4% unemployment rate.
- In light of our area's economic difficulty, a group of community leaders developed a proactive agenda that contained four steps that the legislature could take to help Rock County and the state of Wisconsin.
- Tax credit portability was at the top of that list.
- As you know, Senate Bill 291 would allow for the sale or transfer of state tax credits issued by the Wisconsin Economic Development Corporation in counties that meet a certain threshold of economic distress.
- Tax credits are one of the primary tools in Wisconsin's economic development toolbox, and are frequently the primary state incentive offered to relocating and expanding businesses.
- Often, these tax credits are offered to start-up companies that have yet to generate a profit, or to distribution center-type projects that do not actually sell anything.

- Operations of this nature do not generate taxable income and, as such, do not have any state income tax liability, making the granting of tax credits largely ineffectual. A recent example of this the latter example is the Lowe's distribution facility, which ended up outside Rockford, IL.
- So what do these companies need? Often, the answer is cash to support investment in working capital, facilities and equipment.
- To remain competitive with other states, Wisconsin should enact a program to make its tax credits portable.
- Tax credit portability will allow companies to sell their tax credits on the open market or to receive a refund from the state.
- This would provide these companies with the cash they need, and would position them for sustainability and future growth.
- Offering tax credits to companies do not currently need them, or can't utilize them over either the short- or long-term does not provide the economic incentive desired.
- The federal government allows the sale of historic tax credits, which has played an important role in the revitalization of many communities across the nation.
- 33 states already offer some form of tax credit portability, placing them at a distinct competitive advantage.
- In this time of continued economic uncertainty, we ask you to enhance Wisconsin's overall economic development competitiveness by passing Senate Bill 291.
- Thank you very much.



JOE KNILANS

STATE REPRESENTATIVE • 44TH ASSEMBLY DISTRICT

- First of all I want to thank you Mr. Chair and all of the committee members for allowing me to testify on SB-291 today. I have authored a companion bill in the assembly, AB-376. This bill is vital to the recovery of the Rock County community and many other communities like Rock County.
- Rock County and Janesville have been hit hard in the latest economic downturn. With the departure of General Motors and all of its suppliers, we are suffering with high unemployment and many families leaving our community. We have many commercial properties open for development, but no businesses locating in our community. This bill would make the statement that Wisconsin and Rock County are open for business.
- When I was elected to represent the people of Janesville last year, I approached many of the area's economic development representatives. I asked them what can I do to create a pro-job growth environment in our state. Well as you can imagine they had a long wish list, but when they discussed the portability of tax credits I felt it would work well in our community and many other like ours.
- Essentially what this bill does is allow a business that is expanding or moving into areas of high unemployment the ability to transfer tax credits that have been issued by WEDC. Why would we want to transfer tax credits? Many businesses that receive tax credits cannot use them until they have a tax liability. For some businesses this timeline might be too late. However, what SB-291 does is enable these businesses to transfer the earned tax credit earlier and save revenue. Allowing the company to save money they in turn are able to use the excess income to create more jobs for our community.
- I would like to clarify that we are not creating any new tax credits with this piece of legislation. We as a legislative body created 100 million dollars in tax credits to create a pro-growth job strategy in Wisconsin. This bill allows the tax credits to be used in a different fashion. In addition, there are safe guards and requirements built in this legislation. To prevent the state of

Wisconsin from creating failures with tax credits like Solyndra we have done the following:

- The tax credit will lose 15% of its value when transferred.
 - WEDC must approve the transfer of any credit if it can demonstrate a economic benefit.
 - The portability can only be used in qualified counties. To qualify for portability the business must be located in a high unemployment area.
 - This is a Pilot program that has a cap of 10 million Dollars within 5 years. If the program is successful and needs to make more credits available to transfer, WEDC can appeal to the Joint Finance Committee.
 - This bill has a claw back provision allowing WEDC to collect and or recover tax credits from the original credit holder if the obligations are not met.
- This bill is an example of the forward thinking that Wisconsin is known for and ideas like this will once again put Wisconsin back on the top for job creation. Thank you again for hearing my testimony and I look forward to any questions you may have.



January 6, 2012

PLEASE SUPPORT SB 291

Dear Members of The Senate:

I was born & raised in Janesville and have lived here most of my life. I am President of a family owned business (Helgesen Development Corporation), which has been in existence for more than fifty years. We currently have seven properties in Wisconsin, totaling approximately 2.3 million square feet under roof. Consequently, our 2011 property taxes within the City of Janesville are \$936,745, which represents a \$40.053 increase from 2010.

Our mission is to provide the best facilities to our customers while adhering to their always-stringent timeline and budget. In doing so, we facilitate a synergy with many team members to achieve management, site planning, financing & construction services to our tenants and potential tenants.

Due to the unfortunate current state of our economy, achieving the goals and objectives of much needed new businesses has been very arduous task. We are grateful for the unwavering support of our State, City & County officials throughout our many projects and achievements over the past few years. Their knowledge, commitment and dedication, especially at this time, is appreciated and respected.

I am reaching out to you and all members of our government, urging you to move forward on SB 291 that is being addressed. We feel this proposed legislation is a vital tool that is vital to aid to boost our economy. The Bill is a benefit to all parties involved. The County, City, State, property owners, and Individuals seeking employment all will benefit. Strong and sustainable economic initiatives are what will help revitalize a city/community that has been so greatly affected in the years past.

We believe passing this Bill will be a marquee step towards achieving all of our ultimate goals, jobs and a better economy.

Respectfully Submitted,

Jeffrey W. Helgesen

Jeffrey W. Helgesen

President

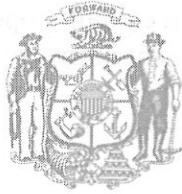
Helgesen Development Corporation

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Van H. Wanggaard

Wisconsin State Senator

Testimony on Senate Bill 291

Tax credits are one of the most popular and effective economic development tools that Wisconsin has. As you know, Wisconsin has been aggressive in issuing tax credits for economic development and redevelopment in past years. These credits often have strings attached – certain benchmarks that must be met in order to be used. Tax credit holders may hold onto those credits for a number of years, until they can be used.

Occasionally, tax credits may be issued for a proposal, but for whatever reason, the credits go unused. It could be because the proposal never comes to fruition or a benchmark isn't met. Unfortunately, one of the results of such a situation is an unused tax credit.

Essentially, this means that the state has spent money on a tax credit to grow jobs, but those jobs haven't developed. An unused tax credit is wasted money – money that is targeted for job growth. That's where this bill comes in.

The idea is simple – It's better and easier to recycle an unused credit than to get a new one. SB 291 allows the sale or transfer of unused tax credits to another entity if certain conditions are met.

Let me talk about requirements of the program for a moment – and there are many.

- First, only up to 85% of a credit can be transferred – the rest of the credit, the other 15%, cannot be used by anyone. This means that someone can't sell half of a credit, and use the other half of the credit. Once it's transferred – the original "owner" is out of the picture. Whatever remains from the credit is returned to the grant program for new grants.
- Second, Wisconsin Economic Development Corporation (WEDC) must approve the transfer and determine that the credit relates to economic development in a qualifying county.
- Third, the transferred credits can only be used in qualified counties. Those counties must have had persistently high unemployment rates – averaged higher than the national average over the past 5 years, and had a 10% or higher unemployment rate in at least two of those years. The WEDC can also notify Joint Finance of its intention to designate additional counties as qualified if the counties' unemployment rate is persistently higher than the national average.
- Fourth, the recipient of the tax credit must be headquartered in a qualified county, relocate its headquarters to a qualified county, will add jobs to an existing business in a

Serving Racine County - Senate District 21

qualified by at least 10% or the recipient's operations will expand and the recipient will make a significant capital investment in the county as a result.

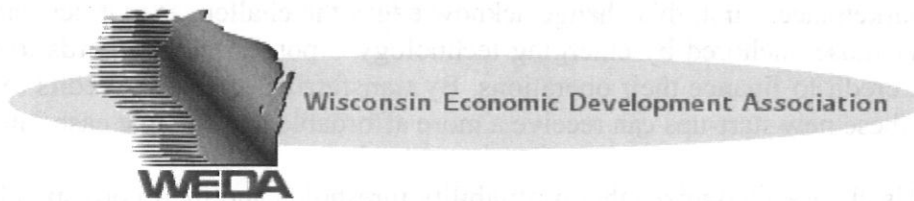
- The bill also has clawback provision, where WEDC can recover all of tax credits from the original credit holder.

Of course, to be successful in our economic development efforts, we must be flexible. The bill provides that flexibility. WEDC can deny the credit transfer, approve it and/or modify the requirements for use of the credit.

This is a very limited bill and I view it as a pilot program. It is only in place for 5 years, with the possibility of another 5 years if it is successful. Only a couple of counties are initially eligible for the transferred credits – those that have had historically high unemployment rates.

You may look at the bill, and think this authorizes an additional \$10 million in tax credits. That would be incorrect. The bill authorizes the transfer of up to \$10 million in credits. It does not authorize any new credits. To be clear, about \$65 million in Economic Development Tax Credits have been issued. This bill potentially authorizes the transfer of \$10 million of those credits – pending approval of WEDC.

This bill allows Wisconsin to make the best use of its existing tax credits, and focusing those efforts on the areas most needing those credits. This is not a silver bullet – but it could help grow our economy in areas that most need it. Thank you.



SUPPORT FOR SENATE BILL 291

Testimony submitted by James Otterstein, Legislative Co-Chair

Good morning, I am James Otterstein and today's remarks represent two distinct, yet related constituency groups. First and foremost, I am the Legislative Co-Chair of the Wisconsin Economic Development Association (WEDA). WEDA is a membership-based group that represents the collective economic development interests of over 400 + public and private sector members throughout Wisconsin. Secondly, I represent Rock County's Economic Development Agency. The message from both constituency groups is to SUPPORT SB 291.

Wisconsin's business climate, regardless of which year or publication cited, has historically been ranked less favorably than its counterparts. Coupled with its relatively lean economic development toolbox and various socio-economic variables (e.g. higher than average unemployment rates, decreased property values, reliance upon the manufacturing sector, etc.), it is painfully clear that Wisconsin is facing an uphill economic recovery. Fortunately, the Legislature has been open to considering or adopting innovative policies / programs to help advance Wisconsin's business climate forward.

In response to the 2006 Legislative Audit Bureau's *State Economic Programs Report*, WEDA offered several forward thinking recommendations to address Wisconsin's anemic tax credit portfolio. Per that Report, Wisconsin's tax credits were characterized as ineffective because they were under utilized, narrowly defined and to some extent duplicative in nature. Since that Report, tax credit changes – such as program consolidation, increased allowable or eligible activities and some portability measures – have been implemented.

SB 291 proposes to enhance this portability measure by creating a mechanism to facilitate the transfer or sale of tax credits between eligible Wisconsin taxpayers. The economic climate, the performance based nature of tax credits (i.e. one must have a tax liability to use them), the net present value of tax credits and the increasing number of tax credit programs that permit some form of portability at either the federal or state level, warrants the exploration and subsequent adoption of programs such as SB 291.

By increasing the flexibility of these tax credits, Wisconsin is sending positive signals into the marketplace. First, this change acknowledges the challenges that new start-ups – particularly those anchored by emerging technology – possess with regards to securing affordable credit to finance their operations. By transferring or selling credits to existing WI firms, these new start-ups can receive a more affordable and flexible cash injection.

Second, this change recognizes that profitability thresholds and their corresponding state income tax liabilities – particularly for emerging or relocating businesses – requires a time element to build that critical mass. Therefore, a tax credit award that cannot be legitimately used until the company's fifth year of operation and then perhaps exhausted by its eighth year possesses a diminishing net present value.

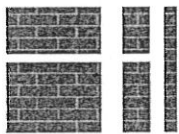
Third, this type of change acknowledges that there are lost market opportunities by not creating a conduit to facilitate the connection between needs and wants. Specifically, there are healthy portfolios of vacant commercial/industrial real estate that exist throughout Wisconsin's metro areas – particularly those that have been hit the hardest by this country's recent recession. The statistics are staggering and counties such as Rock and Racine, as well as others, are clawing their way back economically each and every day. Therefore, tools that can leverage these assets and create employment opportunities in those communities should be a priority.

Lastly, this proposed change recognizes that for legitimate fiscal considerations, the ability to sell or transfer tax credits must be controlled by appropriate oversight. That's why the Wisconsin Economic Development Corporation (WEDC) award contract will stipulate the terms, conditions and performance standards attributed to each tax credit sale or transfer. Simply stated: if credits are awarded, the original recipient is legally obligated to earn and utilize those credits – regardless if they keep or assign those credits to another eligible WI taxpayer – in accordance with their contract.

While the nuances of SB 291 represent a new approach for Wisconsin, this type of portability already exists at the federal and various individual state levels too. From air credits to low-income housing or from historic rehabilitation to targeted (urban) geographic areas, tax credit sale or transfer mechanism examples exist.

As Wisconsin continues to reposition its economic development efforts through favorable business climate policies and programming, WEDA encourages the Legislature to remain bold. Therefore, WEDA supports the innovative and bold concepts embodied within SB 291.

Your support for this important economic development tool is greatly appreciated. Thank you.



**HENDRICKS
COMMERCIAL
PROPERTIES, LLC**

January 9, 2012

Office of Representative Joseph Knilans, via-email

Re: SB 291 / AB 376

Dear Representative Joe Knilans:

In response to tomorrow's Senate hearing on their version of your bill, I wanted to quickly highlight the importance of this legislation to Hendricks Commercial Properties, as well as the county's / state's economic development efforts. As you know, one of Diane Hendricks key initiatives – both personally and professionally – is job creation.

At Hendricks Commercial Properties, I am responsible for securing and maintaining tenants for our 15 Million SF + portfolio. While this portfolio stretches across the United States, approximately 50% of this real estate is anchored within the Midwest. With sizable portions of this real estate in Rock County, as well as other WI counties too, you can appreciate the important roles that this property plays in our local communities. Suffice to say: matching-up available real estate for emerging entrepreneurs, expanding firms and relocating companies is an extremely complicated and competitive business proposition.

I can attest to this competition standpoint first hand, as I am constantly dealing with an increasingly diverse range of prospective and existing tenants. In the past, as well as today, our tenants generally find more advantageous deals elsewhere. Tax breaks, easier / less costly permitting and more generous state incentives are generally the factors that must be overcome as we attempt to match-up tenant expectations and their related needs. While Hendricks Commercial Properties prides itself on being more creative and responsive than other developers, our hands are somewhat tied too.

As such, any assistance that we can leverage from the local and/or state government enables us to level the playing field. SB 291 and its companion AB 376, is an absolute step in the right direction. It creates a simple system to maximize the value of tax credits; which in turn, provides property owners and developers like Hendricks Commercial Properties with a value-added tool to help create jobs through tenant leases and/or sales. Since we pay taxes too, we have a vested interest to ensure that the appropriate accountability standards exist with respect to the use of public incentives. In my opinion, SB 291 meets this test.

Thank you for your initiative and foresight in proposing this important bill.

Sincerely,

Robert Gerbitz

President & Chief Operating Officer
Hendricks Commercial Properties, LLC

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"Vision to Reality"

